

**REPORT OF THE AUDIT OF THE  
GARRARD COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2001**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
[www.kyauditor.net](http://www.kyauditor.net)

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE GARRARD COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2001**

The Auditor of Public Accounts was engaged to audit the Garrard County Fiscal Court for the fiscal year ended June 30, 2001. A disclaimer of opinion was issued due to an independent audit report of the Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc.

#### **Financial Condition:**

Fund balances increased by \$541,978 from the prior fiscal year, resulting in a cash surplus of \$1,058,487 as of June 30, 2001. Total cash receipts increased by \$5,283,005 from the prior year and total cash disbursements increased by \$4,684,304. The main reason for these large fluctuations from last year is the \$4,500,000 capital lease the county entered into with the Kentucky Association of Counties Leasing Trust. The lease proceeds were used to restructure the short-term debt of the Garrard County Memorial Hospital.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$4,886,853 as of June 30, 2001. Future principal and interest payments of \$9,107,032 are needed to meet these obligations.

#### **Report Comment:**

- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT .....	1
GARRARD COUNTY OFFICIALS .....	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS .....	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES .....	12
STATEMENT OF CASH FLOWS .....	17
NOTES TO FINANCIAL STATEMENTS .....	18
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE .....	27
SCHEDULE OF OPERATING REVENUE.....	31
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES .....	35
SCHEDULE OF OTHER EXPENDITURES .....	39
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	43
COMMENT AND RECOMMENDATION .....	47
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable E. J. Hasty, Garrard County Judge/Executive  
Members of the Garrard County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Garrard County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Garrard County Fiscal Court.

The Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc. are material component units of Garrard County. These entities were audited by an independent auditor for the year ending September 30, 2001, and their reports were furnished to us. The reports stated that due to scope limitations, and due to the fact that the hospital needs a large amount of financing to meet ordinary operating expenses and payroll, there was question as to its ability to continue as a going concern. Therefore, an opinion could not be expressed on either entity.

Since an opinion could not be expressed by the independent auditor on the Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc., as of September 30, 2001, and these component units make up nearly half of the total assets and liabilities on the balance sheet for the reporting entity, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

As described in Note 1, Garrard County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable E. J. Hasty, Garrard County Judge/Executive  
Members of the Garrard County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2003, on our consideration of Garrard County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Garrard County, Kentucky. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion in the financial statements. Similarly, we are unable to express, and do not express, an opinion on the accompanying supporting schedules.

We present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 18, 2003



GARRARD COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

**Fiscal Court Members:**

E.J. Hasty	County Judge/Executive
Marvin Conn	Magistrate
F.C. Foley	Magistrate
Norman Davis	Magistrate
Ronnie Lane	Magistrate
David Rankin	Magistrate

**Other Elected Officials:**

Jeff Moss	County Attorney
Kenny Tuggle	Jailer
Shelton Moss	County Clerk
Jennifer Grubbs	Circuit Court Clerk
Ronnie Wardrip	Sheriff
Marsha McQueary	Property Valuation Administrator
Carla Henderson	Coroner

**Appointed Personnel:**

Louise Robinson	County Treasurer
Louise Robinson	Occupational Tax Collector
Angela Bowling	Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

GARRARD COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

	<u>Governmental Fund Types</u>			<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Project</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 847,125	\$ 229,686	\$ 163	\$ 1,076,974
Accounts Receivable				
Inventory				
Interest Receivable				
Restricted Cash-				
Goodwill				
Property and Equipment, net				
Interfund Receivable (Note 4)	<u>4,500,000</u>	<u></u>	<u></u>	<u>4,500,000</u>
Total Assets	<u>\$ 5,347,125</u>	<u>\$ 229,686</u>	<u>\$ 163</u>	<u>\$ 5,576,974</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Lease	<u>\$ 4,886,853</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,886,853</u>
Total Other Resources	<u>\$ 4,886,853</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,886,853</u>
Total Assets and Other Resources	<u>\$ 10,233,978</u>	<u>\$ 229,686</u>	<u>\$ 163</u>	<u>\$ 10,463,827</u>

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS  
June 30, 2001  
(Continued)

Garrard County Memorial Hospital (Unaudited)	Garrard County Long-Term Care Facility, Inc. (Unaudited)
\$ 493,134	
1,366,200	811,805
168,509	
33,136	
1,036	
	1,889,066
643,342	1,976,740
<u>\$ 2,705,357</u>	<u>\$ 4,677,611</u>
<u>\$</u>	<u>\$</u>
<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 2,705,357</u>	<u>\$ 4,677,611</u>

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND FUND BALANCES ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Project	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease	\$ 4,886,853	\$	\$	\$ 4,886,853
Accounts Payable				
Provider Tax Payable				
Accrued Liabilities				
Estimated Third-Party Payor Settlements				
Other Current Liabilities				
Interfund Payable (Note 4)				
Total Liabilities	<u>\$ 4,886,853</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,886,853</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$ 4,518,487	\$ 229,686	\$ 163	\$ 4,748,336
Unreserved	828,638			828,638
Net Assets				
Total Equity	<u>\$ 5,347,125</u>	<u>\$ 229,686</u>	<u>\$ 163</u>	<u>\$ 5,576,974</u>
Total Liabilities and Equity	<u>\$ 10,233,978</u>	<u>\$ 229,686</u>	<u>\$ 163</u>	<u>\$ 10,463,827</u>

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND FUND BALANCES ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

Garrard County Memorial Hospital (Unaudited)	Garrard County Long-Term Care Facility, Inc. (Unaudited)	Totals (Memorandum Only)	
\$	\$	\$	4,886,853
1,009,065	128,578		1,137,643
682,426			682,426
107,130	137,670		244,800
493,294	28,849		522,143
467,586	33,869		501,455
	4,500,000		
<u>\$ 2,759,501</u>	<u>\$ 4,828,966</u>	<u>\$</u>	<u>12,475,320</u>
\$	\$	\$	4,748,336
			828,638
(54,145)	(151,354)		(205,499)
<u>\$ (54,145)</u>	<u>\$ (151,354)</u>	<u>\$</u>	<u>5,371,475</u>
<u>\$ 2,705,356</u>	<u>\$ 4,677,612</u>	<u>\$</u>	<u>17,846,795</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

GARRARD COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Primary Government Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,432,623	\$ 1,645,871	\$ 1,256,764	\$ 117,712
Transfers In	331,681	29,000	30,000	247,000
Borrowed Money	250,000	250,000		
Kentucky Advance Revenue Program	656,500	627,300	29,200	
Lease-Purchase Proceeds	4,500,000	4,500,000		
Gain On Sale Of Assets				
Total Cash Receipts	<u>\$ 9,170,804</u>	<u>\$ 7,052,171</u>	<u>\$ 1,315,964</u>	<u>\$ 364,712</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,299,001	\$ 3,200,369	\$ 1,312,394	\$ 360,779
Schedule of Other Expenditures				
Transfers Out	331,681	302,681	25,000	
Borrowed Money Repaid	2,264,536	2,264,536		
Capital Lease Principal Payments:				
Health Department	45,000	45,000		
Ambulance	13,217	13,217		
Computers	2,891	2,891		
Trucks	16,000		16,000	
Kentucky Advance Revenue Program Repaid	656,500	627,300	29,200	
Total Cash Disbursements	<u>\$ 8,628,826</u>	<u>\$ 6,455,994</u>	<u>\$ 1,382,594</u>	<u>\$ 360,779</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 541,978	\$ 596,177	\$ (66,630)	\$ 3,933
Cash Balance - July 1, 2000	<u>516,509</u>	<u>216,697</u>	<u>76,451</u>	<u>2,010</u>
Cash Balance - June 30, 2001	<u>\$ 1,058,487</u>	<u>\$ 812,874</u>	<u>\$ 9,821</u>	<u>\$ 5,943</u>

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2001  
(Continued)

General Fund Type	Special Revenue Fund Type				Capital Projects Fund Type
Local Government Economic Assistance Fund	CDBG-Micr Fund	E-911 Fund	CSEPP Fund	CDBG-Grant Fund	
\$ 906 6,361	\$ 5,893	\$ 70,539 15,320	\$ 92,473 4,000	\$ 242,465	
<u>\$ 7,267</u>	<u>\$ 5,893</u>	<u>\$ 85,859</u>	<u>\$ 96,473</u>	<u>\$ 242,465</u>	
\$ 14,856	\$ 5,893	\$ 72,426	\$ 89,819	\$ 242,465	
			4,000		
<u>\$ 14,856</u>	<u>\$ 5,893</u>	<u>\$ 72,426</u>	<u>\$ 93,819</u>	<u>\$ 242,465</u>	
\$ (7,589) 7,589	\$	\$ 13,433 213,584	\$ 2,654 15	\$ 163	
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 227,017</u>	<u>\$ 2,669</u>	<u>\$ 163</u>	

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY  
 STATEMENT OF CASH RECEIPTS,  
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

	Component Unit		
	Component Unit Totals (Memorandum Only)	Garrard County Memorial Hospital (Unaudited)	Garrard County Long-Term Care Facility, Inc. (Unaudited)
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 7,808,326	\$ 6,669,815	\$ 1,138,511
Transfers In			
Borrowed Money			
Kentucky Advance Revenue Program			
Lease-Purchase Proceeds			
Gain On Sale Of Assets	3,338,742	3,338,742	
Total Cash Receipts	<u>\$ 11,147,068</u>	<u>\$ 10,008,557</u>	<u>\$ 1,138,511</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$
Schedule of Other Expenditures	9,307,849	8,017,985	1,289,864
Transfers Out			
Borrowed Money Repaid			
Capital Lease Principal Payments:			
Health Department			
Ambulance			
Computers			
Trucks			
Kentucky Advance Revenue Program Repaid			
Total Cash Disbursements	<u>\$ 9,307,849</u>	<u>\$ 8,017,985</u>	<u>\$ 1,289,864</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,839,219	\$ 1,990,572	\$ (151,353)
Cash Balance - July 1, 2000	<u>(2,044,717)</u>	<u>(2,044,717)</u>	
Cash Balance - June 30, 2001	<u>\$ (205,498)</u>	<u>\$ (54,145)</u>	<u>\$ (151,353)</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS



**GARRARD COUNTY**  
**STATEMENT OF CASH FLOWS**

For The Fiscal Year Ended June 30, 2001

	Total (Memorandum Only)	Garrard County Memorial Hospital (Unaudited)	Garrard County Long-Term Care Facility, Inc. (Unaudited)
Cash Flows From Operating Activities:			
Changes in Net Assets	\$ 1,839,218	\$ 1,990,572	\$ (151,354)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) Provided by Operating Activities:			
Depreciation	161,717	122,827	38,890
Provision for Bad Debts	793,843	662,352	131,491
Increase (Decrease) in Cash Resulting From Changes in:			
Patient Accounts Receivable	(1,775,061)	(1,140,956)	(634,105)
Other Accounts Receivable	(374,548)	(65,357)	(309,191)
Interest Receivable	(22,237)	(22,237)	
Inventory	719,844	719,844	
Accounts Payable	(650,928)	(779,506)	128,578
Other Current Liabilities	(915,262)	(949,131)	33,869
Accrued Liabilities	(164,364)	(302,034)	137,670
Estimated Medicare-Medicaid Cost Report Settlements Payable	(408,227)	(437,075)	28,848
Net Cash (Used in) Operating Activities	<u>\$ (796,005)</u>	<u>\$ (200,701)</u>	<u>\$ (595,304)</u>
Cash Flows from Investing Activities:			
Proceeds From Sale of Land	\$ 390,895	\$ 390,895	\$
Decrease in Assets Limited as to Use	(1,036)	(1,036)	
Capital Expenditures	(3,904,696)		(3,904,696)
Net Cash Provided by (Used in) Investing Activities	<u>\$ (3,514,837)</u>	<u>\$ 389,859</u>	<u>\$ (3,904,696)</u>
Cash Flows From Financing Activities:			
Capital Expenditures	\$ (38,384)	\$ (38,384)	\$
Provider Tax	463,426	463,426	
Principal Payments on Long-Term Obligations	(139,099)	(139,099)	
Cash Provided by Long-Term Obligations	4,500,000		4,500,000
Net Cash Provided By Financing Activities	<u>\$ 4,785,943</u>	<u>\$ 285,943</u>	<u>\$ 4,500,000</u>
Change in Cash and Cash Equivalents	\$ 475,101	\$ 475,101	\$
Cash and Cash Equivalents, Beginning of Year	18,034	18,034	
Cash and Cash Equivalents, End of Year	<u>\$ 493,135</u>	<u>\$ 493,135</u>	<u>\$ 0</u>

GARRARD COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Garrard County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc. as part of the reporting entity. They were audited by other auditors and are discretely presented in the financial statements of Garrard County.

Garrard County Memorial Hospital

The Garrard County Memorial Hospital and Long-Term Care Facility began operations in Lancaster, Kentucky in 1950. The facility provides emergency and inpatient medical care. The long-term care facility portion provides long-term care to elderly patients, but this portion of the facility was sold as described below. The hospital is governed by a board appointed entirely by the Garrard County Fiscal Court.

Garrard County Long-Term Care Facility, Inc.

The Garrard County Long-Term Care Facility, Inc. was created when a no stock nonprofit corporation was formed on March 13, 2001. On June 6, 2001, the newly formed corporation purchased the Long-Term Care Facility from the Garrard County Memorial Hospital. This facility provides long-term care to elderly patients.

Additional - Garrard County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Garrard County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.



GARRARD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Garrard County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Garrard County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The CDBG-MICR Fund, E-911 Fund and CSEPP Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The CDBG-Grant Fund of the Fiscal Court is reported as a Capital Projects Fund Type since the grant is being used to construct a senior citizens building.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

GARRARD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Garrard County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

GARRARD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2001  
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Interfund Receivable and Payable

On June 6, 2001, the Garrard County Fiscal Court entered into a thirty-year, \$4,500,000 capital lease agreement with the Kentucky Association of Counties Leasing Trust in order to refinance the debt of the Garrard County Memorial Hospital. The hospital makes payments to the fiscal court on a monthly basis to cover the debt service requirements. As of June 30, 2001, the principal balance of \$4,500,000 was due to the Garrard County Fiscal Court from the Garrard County Memorial Hospital.

Note 5. Capital Lease Agreements

A. Health Department

In December 1997, Garrard County entered into an eight-year, \$450,000 lease agreement with the Kentucky Association of Counties Leasing Trust for the purpose of constructing a county health department. Principal payments are due each January 20 while interest is paid monthly. The principal balance of the lease as of June 30, 2001, was \$321,000.

<u>Fiscal Year</u> <u>Due</u>	<u>Scheduled</u> <u>Interest</u>	<u>Principal</u> <u>Amount</u>
2001-2002	\$ 13,654	\$ 47,000
2002-2003	11,468	50,000
2003-2004	9,166	52,000
2004-2005	6,754	55,000
2005-2006	4,224	57,000
2006-2007	1,586	60,000
Total	<u>\$ 46,852</u>	<u>\$ 321,000</u>

GARRARD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 5. Capital Lease Agreements (Continued)

A. Health Department (Continued)

After entering into the lease agreement with KACo, the County entered into a sublease agreement with the Garrard County Public Health Taxing District. The terms, provisions, and stipulations of the sublease are the same as those set forth in the lease. All rental payments and other charges are to be paid by the sublessee to the sublessor and the sublessor will thereafter make said payments to KACo. As of June 30, 2001, the County Public Health Taxing District appeared to be in compliance with provisions of the sublease.

B. Road Department Trucks

On April 12, 1999, the Garrard County Fiscal Court entered into a four-year, \$65,302 lease purchase agreement with the Kentucky Association of Counties Leasing Trust to purchase two trucks for the Road Department. Principal payments are due each January 1 while interest payments are due monthly. The principal balance of the lease as of June 30, 2001 was \$34,302.

<u>Fiscal Year</u> <u>Due</u>	<u>Scheduled</u> <u>Interest</u>	<u>Principal</u> <u>Amount</u>
2001-2002	\$ 1,048	\$ 17,000
2002-2003	<u>389</u>	<u>17,302</u>
Total	<u>\$ 1,437</u>	<u>\$ 34,302</u>

C. Ambulance

On July 1, 1999, the Garrard County Fiscal Court entered into a four-year, \$54,064 lease purchase agreement with the Kentucky Association of Counties Leasing Trust to purchase an ambulance. Both principal and interest payments are due on a monthly basis until culmination of the lease on June 20, 2003. The principal balance of the lease as of June 30, 2001 was \$28,178.

<u>Fiscal Year</u> <u>Due</u>	<u>Scheduled</u> <u>Interest</u>	<u>Principal</u> <u>Amount</u>
2001-2002	\$ 931	\$ 13,790
2002-2003	<u>333</u>	<u>14,388</u>
Total	<u>\$ 1,264</u>	<u>\$ 28,178</u>

GARRARD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 5. Capital Lease Agreements (Continued)

D. Computers

On October 1, 1999, the Garrard County Fiscal Court entered into a three-year lease agreement with Bamill, Inc. to purchase two computers. Payments of \$278.43 are due the first day of each month for the life of the lease. At expiration of the lease on October 1, 2002, the County will have the option to purchase the computers for \$1.00. The balance of the lease as of June 30, 2001 was \$3,373.

Fiscal Year Due	Scheduled Interest	Principal Amount
2001-2002	\$ 450	\$ 2,891
2002-2003	75	482
Total	<u>\$ 525</u>	<u>\$ 3,373</u>

E. Hospital Debt Restructure

On June 6, 2001, the Garrard County Fiscal Court entered into a thirty-year, \$4,500,000 lease agreement with the Kentucky Association of Counties Leasing Trust to restructure the short-term debt of the Garrard County Memorial Hospital. Principal payments are due each January 20 while interest payments are due monthly. The principal balance of the lease as of June 30, 2001 was \$4,500,000.

Fiscal Year Due	Scheduled Interest	Principal Amount
2001-2002	\$ 229,607	\$ 65,000
2002-2003	217,648	70,000
2003-2004	214,190	70,000
2004-2005	210,629	75,000
2005-2006	206,821	80,000
2006-2011	968,343	475,000
2011-2016	835,992	605,000
2016-2021	667,250	775,000
2021-2026	449,952	1,000,000
2026-2031	169,669	1,285,000
Total	<u>\$ 4,170,101</u>	<u>\$ 4,500,000</u>

GARRARD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 6. Insurance

For the fiscal year ended June 30, 2001, Garrard County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Going Concern

The Garrard County Memorial Hospital is in a declining financial position. According to their audit report, they incurred a net loss from operations of \$1,348,170 for the year ended September 30, 2001. The hospital has been unable to control costs and respond to changes in third party reimbursement. This has caused serious deficiencies in cash flow. In 2001, cash was provided by the spin off of the Long-Term Care Facility. The Garrard County Fiscal Court has secured financing for the Hospital in the amount of \$4,500,000 in order for the hospital to restructure their outstanding debt. According to the hospital's audit report, even after the financing, they are still behind on their payments to the state for provider tax. The hospital agreed to make monthly payments to the county to cover the debt service requirements on this lease agreement; however, if the hospital should become insolvent, the debt service would be solely upon the county. Given the county's limited fund balances, this would rapidly drain their current resources.

Note 8. Subsequent Events

On May 13, 2003, the Garrard County Fiscal Court approved an increase in occupational license fee and net profit realized from one percent to two percent effective July 1, 2003. This increase was implemented to help cover the debt service payments for the \$4.5 million lease agreement with the Kentucky Association of Counties Leasing Trust since the hospital has become unable to pay the debt service payments.

On August 12, 2003, the Garrard County Fiscal Court concurred with the Hospital Board's recommendation for the sale of the Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc. to Care Centers Management Group from Tennessee for \$1,450,000. It was stated in the minutes of this meeting that this sale may not avoid bankruptcy proceedings on the hospital's part.

Note 9. Commitments and Contingencies

The County Attorney has indicated that the Garrard County Fiscal Court could be named in future lawsuits stemming from creditor claims against the Garrard County Memorial Hospital and Garrard County Long-Term Care Facility, Inc. Although the Garrard County Fiscal Court has not been named in any suits at the current date, the County Attorney stated this could become a common occurrence as the hospital continues the process of winding down its operations.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





GARRARD COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 6,864,504	\$ 1,645,872	\$ (5,218,632)
Road and Bridge Fund	1,285,466	1,256,764	(28,702)
Jail Fund	318,517	117,712	(200,805)
Local Government Economic Assistance Fund	7,299	905	(6,394)
<u>Special Revenue Fund Type</u>			
CDBG-MICR Fund	48,750	5,893	(42,857)
E-911 Fund	62,000	70,539	8,539
CSEPP Fund	125,810	92,473	(33,337)
<u>Capital Project Fund Type</u>			
CDBG Grant Fund	<u>306,746</u>	<u>242,465</u>	<u>(64,281)</u>
Totals	<u>\$ 9,019,092</u>	<u>\$ 3,432,623</u>	<u>\$ (5,586,469)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 9,019,092
Add: Budgeted Prior Year Surplus			406,557
Less: Other Financing Uses			<u>(2,998,144)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 6,427,505</u>

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE



**GARRARD COUNTY**  
**SCHEDULE OF OPERATING REVENUE**

For The Fiscal Year Ended June 30, 2001

Revenue Categories	Primary Government Totals (Memorandum Only)	GOVERNMENTAL FUND TYPES		
		General Fund Type	Special Revenue Fund Type	Capital Project Fund Type
Taxes	\$ 996,755	\$ 996,755	\$	\$
In Lieu Tax Payments				
Excess Fees	79,307	79,307		
Licenses and Permits				
Intergovernmental Revenues	1,971,009	1,630,178	98,366	242,465
Charges for Services	281,032	215,250	65,782	
Miscellaneous Revenues	68,706	68,706		
Interest Earned	35,814	31,057	4,757	
Total Operating Revenue	<u>\$ 3,432,623</u>	<u>\$ 3,021,253</u>	<u>\$ 168,905</u>	<u>\$ 242,465</u>

Revenue Categories	Component Unit Totals (Memorandum Only)	COMPONENT UNIT	
		Garrard County Memorial Hospital	Garrard County Long-Term Care Facility, Inc.
Taxes	\$	\$	\$
In Lieu Tax Payments			
Excess Fees			
Licenses and Permits			
Intergovernmental Revenues			
Charges for Services	7,681,880	6,585,294	1,096,586
Miscellaneous Revenues	126,446	84,521	41,925
Interest Earned			
Total Operating Revenue	<u>\$ 7,808,326</u>	<u>\$ 6,669,815</u>	<u>\$ 1,138,511</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES





GARRARD COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 478,582	\$ 424,835	\$ 53,747
Protection to Persons and Property	805,865	773,873	31,992
General Health and Sanitation	248,613	231,019	17,594
Social Services	18,098	17,734	364
Recreation and Culture	36,381	35,767	614
Roads	1,209,780	1,206,060	3,720
Debt Service	371,028	349,832	21,196
Administration	2,540,532	1,849,278	691,254
 Total Operating Budget - General Fund Type	 \$ 5,708,879	 \$ 4,888,398	 \$ 820,481
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	656,500	656,500	
Bank Note - Principal	2,264,536	2,264,536	
Capital Lease Agreements-			
Health Department - Principal	45,000	45,000	
Trucks - Principal	16,000	16,000	
Ambulance - Principal	13,217	13,217	
Computer - Principal	2,891	2,891	
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 8,707,023	 \$ 7,886,542	 \$ 820,481

GARRARD COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 48,750	\$ 5,893	\$ 42,857
Protection to Persons and Property	331,850	158,056	173,794
Administration	31,280	4,189	27,091
<b>TOTAL BUDGET - SPECIAL REVENUE FUND TYPE</b>	<b>\$ 411,880</b>	<b>\$ 168,138</b>	<b>\$ 243,742</b>

CAPITAL PROJECTS FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 59,970	\$	\$ 59,970
Social Services	231,830	229,741	2,089
Capital Projects	14,946	12,724	2,222
<b>TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE</b>	<b>\$ 306,746</b>	<b>\$ 242,465</b>	<b>\$ 64,281</b>

SCHEDULE OF OTHER EXPENDITURES



GARRARD COUNTY  
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Items	Garrard County Memorial Hospital	Garrard County Long-Term Care Facility, Inc.	Total (Memorandum Only)
Salaries and Wages	\$ 3,436,542	\$ 655,012	\$ 4,091,554
Payroll Taxes and Employee Benefits	339,676	174,118	513,794
Medical Supplies and Drugs	1,527,864	51,525	1,579,389
Administrative and General	444,406	112,997	557,403
Provider Tax	97,558		97,558
Contracted Services	1,116,265	65,752	1,182,017
Depreciation	122,827	38,890	161,717
Interest	193,010	60,079	253,089
Provision For Bad Debts	662,352	131,491	793,843
Charity	77,485		77,485
Totals	<u>\$ 8,017,985</u>	<u>\$ 1,289,864</u>	<u>\$ 9,307,849</u>

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable E. J. Hasty, Garrard County Judge/Executive  
Members of the Garrard County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We were engaged to audit the financial statements of Garrard County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 18, 2003. We did not express an opinion on the financial statements because of a scope limitation caused when the independent auditor of the Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc. was unable to express opinions on those component units of Garrard County.

Compliance

As part of obtaining reasonable assurance about whether Garrard County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Garrard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Garrard County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 18, 2003

COMMENT AND RECOMMENDATION



GARRARD COUNTY  
COMMENT AND RECOMMENDATION

June 30, 2001

REPORTABLE CONDITIONS

Lacks Adequate Segregation Of Duties

We noted a lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Public Accountants. When the auditor tried to confirm ambulance receipts, it came to the auditor's attention that one employee in the Judge's office was responsible for billing for the ambulance service, collecting money due, and making the postings. The same employee was responsible for the accounts receivable of the ambulance service. The following procedures would adequately segregate these duties:

- Either another employee bill for the ambulance service or the county could hire a billing service to perform this function;
- Recording of receipts by an individual who does not do the billing;
- Accounts receivable tracking by an individual not involved in the billing or recording of receipts.

The Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness. We recommend that the county implement some of the procedures as described above to establish adequate segregation of duties.

*County Judge/Executive E. J. Hasty's Response:*

*Due to short- handed office help.*

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM


GARRARD COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2001

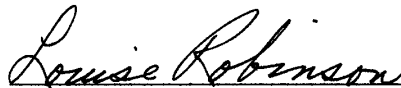
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
GARRARD COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

The Garrard County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



E.J. Hasty  
County Judge/Executive



Louise Robinson  
County Treasurer

